

Message Text

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INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
SP-02 SS-15 STR-05 TRSE-00 ACDA-07 FEA-01 /103 W
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P 032207Z OCT 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 4924
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 08787

PASS STR AND DOE FOR BERGOLD

E.O. 11652:GDS
TAGS: ENRG, CA
SUBJECT: PROSPECTS FOR INCREASED GAS EXPORTS FROM CANADA

REFS: (A) OTTAWA 1323, (B) CALGARY 434, (C) CALGARY 436,
(D) CALGARY 444

1. SUMMARY. INDUSTRY/GOVERNMENT CONSENSUS IS THAT SOME 600 MILLION CUBIC FEET OF GAS PER DAY IS AVAILABLE FOR IMMEDIATE ADDITIONAL CONSUMPTION. PROVIDED ADMINISTERED PRICES CONTINUE TO INCREASE AS PLANNED, NET ANNUAL ADDITIONS TO PROVED RESERVES WILL RUN AT AROUND ONE TRILLION CUBIC FEET THROUGH 1981, AND THUS ADDITIONAL CONSUMPTION COULD BE SUSTAINED INTO THE MID-1980'S. ALTERNATIVE OF LEAVING GAS IN THE GROUND IS PROBABLY POLITICALLY UNACCEPTABLE IN ALBERTA, SINCE IT WOULD HIT PRODUCERS' CASH FLOW, REQUIRE IMPOSITION OF AN (INEVITABLY CONTROVERSIAL) PRORATIONING SCHEME, AND KILL EXPLORATION AND DEVELOPMENT. ALTERNATIVE OF EXPANDING GAS UTILIZATION IN EASTERN CANADA IS NOT
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PROMISING WITHOUT WIDER SPREAD BETWEEN CANADIAN OIL AND GAS PRICES AND ASSURED LONGER-TERM SUPPLY.

2. FEDERAL GOVERNMENT WOULD LIKE TO SEE EARLY USE OF THE GAS BUBBLE FOR EXPORT TO U.S. BUT IT IS SENSITIVE TO CONSUMER AND NATIONALIST PRESSURES, AND WANTS TO COVER ITSELF BY NEGOTIATING TIME SWAPS. ALBERTA WOULD

OF COURSE GAIN NOTHING BY TIME SWAPS AND PREMIER LOUGHEED IS PRESSING FOR U.S. TRADE CONCESSIONS IN AGRICULTURE AND PETROCHEMICALS OF BENEFIT TO HIS CONSTITUENCIES AS PRICE FOR MORE GAS.

3. OTTAWA AND EDMONTON EACH HAVE A HOLD ON THE ISSUE. ONLY THE FORMER CAN AUTHORIZE EXPORTS; ONLY THE LATTER CAN AUTHORIZE INCREASED PRODUCTION.

4. IN MY VIEW, TRADE CONCESSIONS ALBERTA WANTS ARE SMALL PRICE TO PAY FOR MORE GAS, BUT RETURN ENERGY SHIPMENTS MIGHT PROVE EMBARRASSING TO A FUTURE ENERGY-SHORT U.S. THEREFORE, WE SHOULD BE EVASIVE ON TIME SWAPS IN PUBLIC AND PRIVATE, WHILE PROMOTING BILATERAL TALKS ON AGRICULTURE, PETROCHEMICALS AND GAS, AND LET THE PRESSURE FROM ALBERTA TO SELL PUT THE DEAL ACROSS.

5. REQUEST INSTRUCTIONS. END SUMMARY.

6. GAS RESERVES (1977-85). THERE IS GENERAL CONSENSUS AMONG KNOWLEDGEABLE INDUSTRY AND GOVERNMENT SOURCES IN CALGARY (REF B) AND IN OTTAWA THAT ABOUT 600 MMCFD OF ADDITIONAL GAS IS AVAILABLE IN ALBERTA WHOSE PRODUCTION IS CONSTRAINED BY: DEMAND IN CANADA, RESTRICTIONS, ON EXPORTS AND/OR PIPELINE CAPACITY. DEPARTMENT OF ENERGY, MINES AND RESOURCES (EMR) OFFICIALS ESTIMATE
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THAT ADDITIONS TO PROVED GAS RESERVES WILL CONTINUE TO EXCEED PRODUCTION BY AN AVERAGE OF ABOUT ONE TCF PER YEAR THROUGH 1981, INDICATING THAT A HIGHER LEVEL OF PRODUCTION THAN CURRENTLY FORECAST BY NATIONAL ENERGY BOARD (NEB) COULD BE SUSTAINED THROUGH ABOUT 1985. CURRENT NEB FORECAST OF MOST LIKELY SUPPLY (RELEASED IN JUNE 1977) FOR 1977-1985 IS FOR AVERAGE PRODUCTION OF ABOUT 3 TCF/YEAR, INCLUDING AVERAGE EXPORT OF ONE TCF PER YEAR TO U.S. SAME FORECAST INCLUDES NEB ESTIMATE OF MAXIMUM SUPPLY CAPABILITY OF 3.3 TCF/YEAR, WHICH IS LEVEL NOW ACCEPTED AS SUSTAINABLE BY INDUSTRY AND EMR.

7. GAS RESERVES (1985-ONWARD). THERE CONTINUES TO BE CONSENSUS BETWEEN EMR AND NEB OFFICIALS THAT ULTIMATELY RECOVERABLE GAS RESERVES FOR WESTERN CANADA ARE 120 TCF. THERE ALSO IS CONSENSUS, BUT NO CHANGE IN NEB'S OFFICIAL ESTIMATES AS YET, THAT CURRENT PROVED RESERVES ARE 80-85 TCF (RATHER THAN 61 TCF), OR ROUGHLY SAME AS 82 TCF ESTIMATED BY GULF OIL (REF A). THESE HIGHER LEVELS OF PROVED RESERVES NOTWITHSTANDING, GOC FORECASTERS CONTINUE TO BELIEVE THAT BY 1985 PRODUCTION AND SUPPLY WILL BE IN BALANCE AND WESTERN CANADIAN RESERVES WILL

BEGIN TO DECLINE -- WITH LEVEL OF EXPORTS ONE OF VARIABLES
DETERMINING RATE OF DECLINE.

8. ECONOMIC FACTORS. REASON FOR MORE RAPID THAN
EXPECTED PROVING OF RESERVES HAS BEEN RISING PRICE OF
GAS. GOC HAS ADOPTED FORMULA FOR FIXING DOMESTIC PRICE
WHICH SETS VALUE OF GAS AT TORONTO AT 85 PERCENT OF
ALBERTA CURDE OIL (AT TORONTO REFINERY GATE) FOR SAME
BTU VALUE. THUS DOMESTIC GAS IS PRICED AT DOLS 1.68
PER MCF AT TORONTO CITY GATE. EVEN AT THIS PRICE,
GAS CANNOT DISPLACE RESIDUAL OIL IN INDUSTRIAL FUELS
MARKET. TO ABSORB MORE OF AVAILABLE GAS, AND REDUCE
OIL IMPORTS INTO EASTERN CANADA, GOC OFFICIALS ARE
CONSIDERING INCREASING SPREAD BETWEEN OIL AND GAS
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C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 08787

PRICES -- POSSIBLY BY LOWERING 85 PERCENT RATIO, BUT
MORE LIKELY BY CONTINUING TO MOVE CRUDE OIL TOWARD
WORLD PRICE WHILE HOLDING GAS PRICE. HOWEVER, GOC
OFFICIALS RECOGNIZE THAT SUCH ACTION WOULD BE VIGOROUSLY
OPPOSED BY INDUSTRY AND BY ALBERTA GOVERNMENT AND, IF
TAKEN, RISKS CUTTING BACK EXPLORATION AND DEVELOPMENT.
A SERIOUS SHORT-FALL IN GAS PRODUCTION BY MID-1980'S,

RATHER THAN A BALANCE, COULD RESULT. ONLY MARKET AVAILABLE FOR "SURPLUS" ALBERTA GAS AT PRESENT PRICE IS THAT OF U.S.; BOTH ALBERTA GOVERNMENT AND GOC KNOW IT.

9. POLITICS OF GAS. ALBERTA GOVERNMENT, WHICH MUST AUTHORIZE ALL SHIPMENTS OF GAS FROM PROVINCE, HAS MADE CLEAR ITS INTEREST IN INCREASING SUPPLIES TO U.S. MARKET. ALBERTA PREMIER LOGHEED HAS ALSO, BOTH PRIVATELY AND PUBLICLY, (REF C) STATED HIS INTEREST IN EXCHANGING U.S. CONCESSIONS ON AGRICULTURAL PRODUCTS (ESPECIALLY BEEF AND LIVE CATTLE) AND PETROCHEMICALS FOR INCREASED GAS SUPPLY. AT FEDERAL LEVEL, GOC HAS YET TO ADOPT ALBERTA'S POSITION BECAUSE OF CONCERN OVER EXAMPLE THIS COULD SET FOR PROVINCIAL-FEDERAL RELATIONS IN INTERNATIONAL TRADE FIELD AND BECAUSE IT WOULD LIKE TO SEE "SURPLUS" ALBERTA
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GAS USED DOMESTICALLY. ALL THAT GOC HAS INDICATED, SO FAR, IS THAT IT WOULD CONSIDER TIME SWAP OF ADDITIONAL ALBERTA GAS NOW (SAY, 1978-91) FOR REPLACEMENT BY ALASKAN GAS THROUGH ALCAN PIPELINE IN MID TO LATE 1980'S. THIS ARRANGEMENT WOULD DEFER TIME BY WHICH CANADA MUST BEGIN TO DRAW ON ITS ARCTIC RESERVES IN MACKENZIE RIVER DELTA AND BEAUFORT SEA. HOWEVER, THIS APPROACH DOES NOT MEET ALBERTA'S ECONOMIC GROWTH OBJECTIVES, WHICH NEWLY-APPOINTED FEDERAL MINISTER OF INDUSTRY, TRADE AND COMMERCE, JACK HORNER, HAS LITTLE CHOICE BUT TO ESPOUSE ON BEHALF OF HIS ALBERTA CONSTITUENTS.

10. U.S. POSTURE. WHILE BOUND TO BE CONTROVERSIAL, THE CONCESSIONS ALBERTA ASKS (HARMONIZATION OF U.S./CANADA PETROCHEMICAL TARIFFS, CUT IN TARIFF FOR BOXED BEEF, ELIMINATION OF TARIFF QUOTA ON LIVE CATTLE AND IMPROVED ACCESS FOR RAPE SEED PRODUCTS) APPEAR SMALL IN COMPARISON WITH THE POTENTIAL EMBARRASSMENT OF RETURNING GAS TO CANADA. THE DIFFICULTY OF NEGOTIATING COMMERCIALY VIABLE TIME SWAPS IS ANOTHER FACTOR.

11. AMBASSADOR STRAUSS HAS ALREADY ASSURED GOC, AND INDIRECTLY ALBERTA, THAT WE ARE READY TO DISCUSS AGRICULTURE AND PETROCHEMICALS BILATERALLY, IN BROADER CONTEXT OF TRADE NEGOTIATIONS WITH CANADA AND LIBERALIZATION OBJECTIVES OF MTN. PRESSURE IS NOW ON OTTAWA TO ENGAGE US IN NEGOTIATION. TO KEEP IT ON, WE SHOULD DOWNPLAY TIME SWAPS IN PRIVATE AND IN PUBLIC AND PUT EMPHASIS ON TRADE TALKS. COMMERCIAL AND POLITICAL PRESSURE FROM ALBERTA SHOULD DO THE REST.

12. TRANSPORTATION CONSTRAINTS. AT PRESENT, PIPELINES FROM WESTERN CANADA TO U.S. ARE OPERATING ESSENTIALLY

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AT CAPACITY. EXPANSION OF CAPACITY FROM CALGARY TO WINNIPEG IS BEING COMPLETED AND WILL ADD 150 MMCFD TO POTENTIAL THROUGHPUT. BEYOND THIS, PRE-BUILDING OF SOUTHERN PORTION OF ALCAN LINE IS MOST FEASIBLE NEAR-TERM EXPANSION. INDUSTRY SOURCES (REF D) INDICATE ECONOMIC PREFERENCE FOR PRE-BUILDING OF WESTERN LEG, WHICH COULD ADD 600 MMCFD BY 1979. QUESTIONS OF TIMING OF CONSTRUCTION, TARIFFS FOR NEW LINE AND SUITABILITY OF MOVING ADDITIONAL GAS FROM U.S. WEST COAST TO MID-CONTINENT BY DISPLACEMENT ARE IMPORTANT BUT CANNOT BE ANALYZED FROM THIS VANTAGE POINT. ENDERS

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